

Philippines: Hurdles Ahead for the New Government

Art. 16 of M.L. a key variable !!

President Aquino has failed to establish new ground rules for governing--
a development that has paralyzed policymaking on critical issues such as
economic reform and counterinsurgency strategy.

-- According to the US Embassy, Aquino's cabinet is split over how the government should proceed, with some members advocating the use of existing political institutions such as the National Assembly and the Supreme Court until a new constitution can be drafted. Other advisers argue that these institutions are so seriously flawed that Aquino needs an extended period of revolutionary government to establish a new political order.

-- Aquino is leaning towards a revolutionary government but has appointed five cabinet members to study the issue. This group has told the press that it expects to issue a report by Wednesday. *for tomorrow, 6 mos. Emerg. powers N.Y. Ass 12 May*

If Aquino presses ahead with plans for a revolutionary government, it could aggravate differences within her fragile coalition.

-- The US Embassy says that Laurel supporters are disgruntled with Aquino's policy decisions thus far, including her cabinet appointments and efforts to replace local government officials with members of her own party.

-- Some Assembly members of Laurel's party have already approached former ruling party members in an effort to work out a strategy for pressuring Aquino to convene the National Assembly.

Whatever Aquino's final decision, how she deals with several tough economic problems in the months ahead will determine whether she can maintain the confidence of domestic businessmen and foreign creditors--a necessary condition for sustained economic recovery.

-- For one thing, Marcos's massive election spending has bloated the money supply and is threatening to rekindle inflation, now running at a rate of 10 percent annually. So far, Aquino is following the former government's strategy of increasing interest rates to rein in excess liquidity--a circumstance that almost certainly will undercut economic recovery in the short term, but is still viewed as prudent by conservative businessmen.

-- Aquino also faces new IMF negotiations soon because the current \$650 million Fund program expires in June and the country will have to negotiate a new loan. The Fund will probably demand a depreciation of the peso in order to make Philippine products more competitive on world markets--a move Aquino is likely to reject because she fears political fallout from the resulting inflation.

- If Manila pushes ahead a plan to "selectively repudiate" its foreign debt--the measure is currently being debated in the government--relations with the Fund and the country's commercial creditors would deteriorate considerably. Two senior government officials recently said publicly that Manila might default on foreign loans incurred by Marcos and his associates.

Military reform is one area where Aquino has had some success in implementing new policy.

- Aquino has given Armed Forces Chief of Staff Ramos and Defense Minister Enrile carte blanche to revamp military leadership, restructure the armed forces, and formulate a new counterinsurgency strategy. So far, Ramos and Enrile have removed 23 generals whose tenure had been extended by Marcos beyond retirement age and have replaced them with officers who are generally respected for their professionalism and leadership capabilities.

Aquino's efforts to formulate a more effective counterinsurgency strategy have been limited, and even if talks with the Communist insurgents get underway, the military still faces an uphill battle in its fight against the insurgency.

- Since releasing several senior Communist Party officials from detention last month, Aquino's attempts to negotiate a cease fire with the insurgents have stalled and they have continued nationwide military operations. 20 dead yesterday, press
- For its part, the military has to deal with a budget so austere that, it has already spent all of this year's appropriations, outside of pay and allowances.
- The military also faces a firmly entrenched Communist movement that has vowed to continue armed struggle against the new government.

Aquino's public position on the US bases remains that her government will respect the current agreement until it expires in 1991, but after that will keep all options open.

- Bases negotiations are scheduled to begin in 1988, and formal review of the agreement, if necessary, will not start until 1991.

- If Aquino favors retention of the bases past 1991 she could face increased opposition from leftists in her coalition who want the bases removed immediately.